Millar's Volatility Principle in the pricing of Development Sites.

The market for development sites is non-linear, rising and falling exponentially : any increase or decrease in the sale price of the completed product, whether it be dwelling, warehouse, or office building, where all other inputs are constant, goes directly to increase or decrease the value of the land but which representing a far higher proportion of the site cost rather than the total dwelling cost, results in non linear, exponential swings in the price of underlying development site.

Of course muddying the waters is the fact that not all inputs will be constant; however this example does illustrate the principle as to why the value of development sites soars and plummets with cyclical certainty!

Sale price of Unit	300	
Cost of unit except land	200	
Thus by subtraction cost/value of land	100	
Increase selling price by 10%		
Sale price of Unit	330	Percentage increase in unit sales value 10
Cost of unit except land	200	
Thus by subtraction cost/value of land	130	Percentage increase in land cost/value 30
Decrease selling price by 10%		
Sale price of Unit	270	Percentage decrease in unit sales value -10
Cost of unit except land	200	
Thus by subtraction cost/value of land	70	Percentage decrease in land cost/value -30

Thus in this example, the sales value of the completed unit may rise or fall by say 10 % but the cost/value of the site itself falls, or rises, by 30%

The reason of course is that the amount of the increase or decrease in the end sale price, where all other inputs are constant, goes directly to increase or decrease the cost of the land but which represents a far higher proportion, thus the resulting non linear swings in the price of development sites.

Graham H. Millar, 20 May 2004.

Millar's List of Development Sites … 02 9975 4240 … www.millarslist.com